Does it pay to train ?

ISO 10015 assures the quality and return on investment of training

To stay in the race, organizations must continuously re-invest in and upgrade the competence of their human resources. However, most managers do not know how to measure the benefits of training and the return on training investment. ISO 10015:1999 ; Quality management – Guidelines for training, *provides answers to the crucial question : does it pay to train ?*

by **Dr. Lichia Yiu** and **Dr. Raymond Saner**

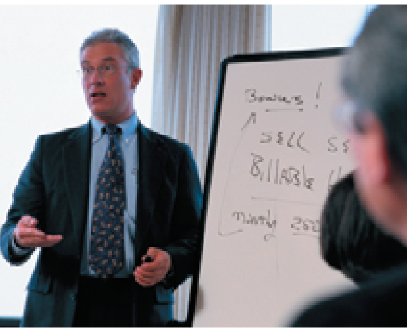
Global competition coupled with technological innovation is shifting the European and North American economies from industrial to knowledge-based production of goods and provision of services. Traditional advantages such as manufacturing know-how and quality have been eroded by competition from companies from newly industrialized countries. For the advanced industrial nations, competitive advantage now depends on superior innovation, intellectual property, and capital – which, in turn, demand increasingly sophisticated human skills and knowledge.

To keep pace with these changing market conditions and workplace practices, companies must continuously re-invest in and upgrade the competence of their human resources. Yet while most managers recognize the need to attract, develop and retain a highly skilled and innovative workforce, few feel comfortable with the idea of investing in people, especially with profit margins under pressure.

Instead, reducing expenditure occupies top management thinking and training budgets are cut without considering the effect on competitive advantage in the future. Most managers do not know how to assess the return on investment in training, nor are they equipped with the necessary management tools to monitor the decision-making process of such investment.

Training management requires vision, strategy, expertise *and* management tools

So, how do you know if investment in staff training will return in the form of more effective work processes, or new and more competitive goods or services? How can you measure the benefits of training and amortize investments in human



capital? How can an organization be sure that recently trained employees – those most important assets – will not simply walk away with their newly acquired knowledge and skills?

Indeed: *how can an organization ensure the quality of its training investments so that optimal return is guaranteed?*

This article examines the value of investing in training and highlights benefits of implementing International Standard ISO 10015:1999 *Quality management — Guidelines for training*[1)]. While ISO 10015 may have been overshadowed by the success of ISO 9001:2000, it is proving to be a highly effective tool for solving the problem of measuring the effectiveness of training – thereby helping organizations to justify investment in training and to retain the competitive edge.

Investment or expenditure?

There is a discrepancy between what organizations may say – "people are our most valued asset" – and what they actually do. One reason is that organizations are not required to report on training investments to shareholders, nor to society in general. Therefore, there is no external accountability regarding managerial responsibility for safeguarding the organization's human and intellectual capital.

According to the American Society for Training Development (ASTD – **www.astd.org**) *2004 State of the Industry Report*[2)], many major companies in North America and Western Europe spend up to 2 % to 4 % of total payroll on training, amounting to millions of US dollars, but do not scrutinize such investment as thoroughly as they do others. Is this because training continues to be treated as an expense, rather than as an investment in an organization's capacity to compete and innovate?

Why invest in training?

Managers are understandably concerned about justifying and protecting their investments. However, since mobility of labour is part of the market economy, employees can leave without the organization recuperating an adequate return on its training investment.

To be successful, companies must nonetheless manage this dilemma and invest in people, or lose ground as competitors abroad continue to do so. For example, US employers spent an average of USD 820 per employee since 2002[2)], representing about 2 % of payroll, in spite of seemingly relentless price competition and a significantly more mobile labour market than Europe.

However, similar examples *can* be found in Europe. A recent survey of 1200 companies in Ireland showed that training averaged 3,01 % of payroll in 2001[2)]. This is probably one reason why Ireland has become one of the most dynamic European economies.

Measuring return on investment

Measuring return on investment (ROI) from training is difficult – but not impossible. Since 1997, ASTD has been collecting data on company training investment in order to answer the question: *does it pay to train?*

Data collected from over 2 500 companies, measured against TSR (stockholder return), indicated that organizations making higher training investments in 1996, 1997 and 1998 yielded higher TSR the following year[3)]. The sample included some European companies with similar links between higher training investment and TSR.

Measuring ROI from training is difficult – but not impossible

These pioneering findings help confirm that training does pay off in terms of organizational performance. It supports the argument that investment in people *can* impact the bottom line. However, as with all investment portfolios, investment in training does not automatically result in performance improvement without smart strategy and competent management. Training management requires vision, strategy, expertise *and* management tools.

1) ISO 10015:1999, *Quality management – Guidelines for training*, price 73 Swiss francs, is available from ISO national member institutes (listed with contact details on the ISO Web site: **www.iso.org**) and from ISO Central Secretariat (**ISO Web store + sales@iso.org**).

2) *2004 State of the Industry*, ASTD's Annual Review of Trends in Workplace Learning and Performance, Brenda Sugrue & Kyung-Hyun Kim, ASTD, 2004.

3) L. Bassi, J. Ludwig, D. McMurrer, M. VanBuren; *Profiting from Learning: Do Firms' Investments in Education and Training Pay Off?*, Research White Paper, ASTD, Washington, September 2000.

Quality of training investment

So, how can an organization ensure the quality of its investment in training so that optimal return is guaranteed ? And what quality tool could best help a company or government agency to improve the effectiveness of its training ? Several quality standards and tools are available, including the ISO 9000:2000 series, the European Foundation for Quality Management (EFQM) model, and Total Quality Management (TQM) approaches.

Some organizations find these tools effective, others consider them too bureaucratic, too industry oriented and not sufficiently adjusted to the training process. A 2002 survey of seven countries indicated a trend away from these all-purpose quality tools [4].

New quality tools have been developed to target different elements of the training process that respond to the growing demand for tools specifically designed for training. For example, EduQua (**www.eduqua.ch**), a Swiss certification body (with no connection to ISO), offers quality certification of training institutions in Switzerland. This certification is not based on ISO 9001:2000 and focuses on physical infrastructure, training curricula and teaching capacities. To ensure the standards of professional trainers, diploma courses are being offered in

Switzerland by the Swiss Federation of Trainers in Enterprise (**www.fsfe.ch**), and by the Swiss Federation of Adult Education (**www.alice.ch**).

However, none of these quality tools – neither the all-purpose nor the training-specific ones – address the actual pedagogical process itself and the interaction between organizational performance objectives, and training activities. This is what makes an alternative quality management tool available from ISO since 1999 a unique response to training requirements.

ISO 10015 : the solution to quality in training

International Standard ISO 10015:1999 *Quality management — Guidelines for training* is something of an undiscovered gem in the ISO 9000 family of standards. It provides guidelines to assist organizations and their managers when addressing issues related to training. ISO 10015 offers three key benefits :

Benefit 1

- It is easily understood by companies familiar with ISO 9001:2000 quality management systems, being based on the process approach.

Benefit 2

- It can also be used by organizations that have not implemented ISO 9001:2000, but have instead opted for other quality tools, such as the EFQM model, or TQM approaches.

Benefit 3

- It offers guidance focused on training technology and organizational learning, since it is designed specifically to meet quality training needs.

In addition, ISO 10015:1999 has two crucially important features :

Feature 1

- **ISO 10015 links training investment to organizational performance**

Testing the professional competence of trainers and verifying the pedagogical concepts of training programmes are vital. But the key to assessing return on training investment is linking it to organizational performance. When asked, " Why do you pay for training ? ", an organization should be able to track the decision process back to its defined performance objectives. In other words, the key

ISO 10015 users

Major enterprises in China and in Switzerland are among the first organizations to implement ISO 10015 and to have achieved certification to the standard (or to be in the process).

In China, these include :

- the Haier Group, a transnational manufacturer of electrical household appliances with 30 000 employees worldwide, 96 product lines and exports to 160 countries, certified in 2002 ;
- Jiang Huai Automotive Company, which employs a work force of 4 000 and achieved a revenue of USD 760 million in 2004, when it was certified, and
- the Nanhui Telecom Bureau, of the Shanghai Telecom Company, also certified in 2004.

In Switzerland, a number of multinationals in the banking, insurance and other service sectors have completed or are currently engaged on ISO 10015 implementation and certification programmes.

Companies in Argentina, Brazil, Taiwan are also showing strong interest in ISO 10015 to optimize their training and training investment.

4) Raymond Saner ; " Quality management in training : generic or sector-specific ? ", pp. 53-62, *ISO Management Systems*, July-August 2002.

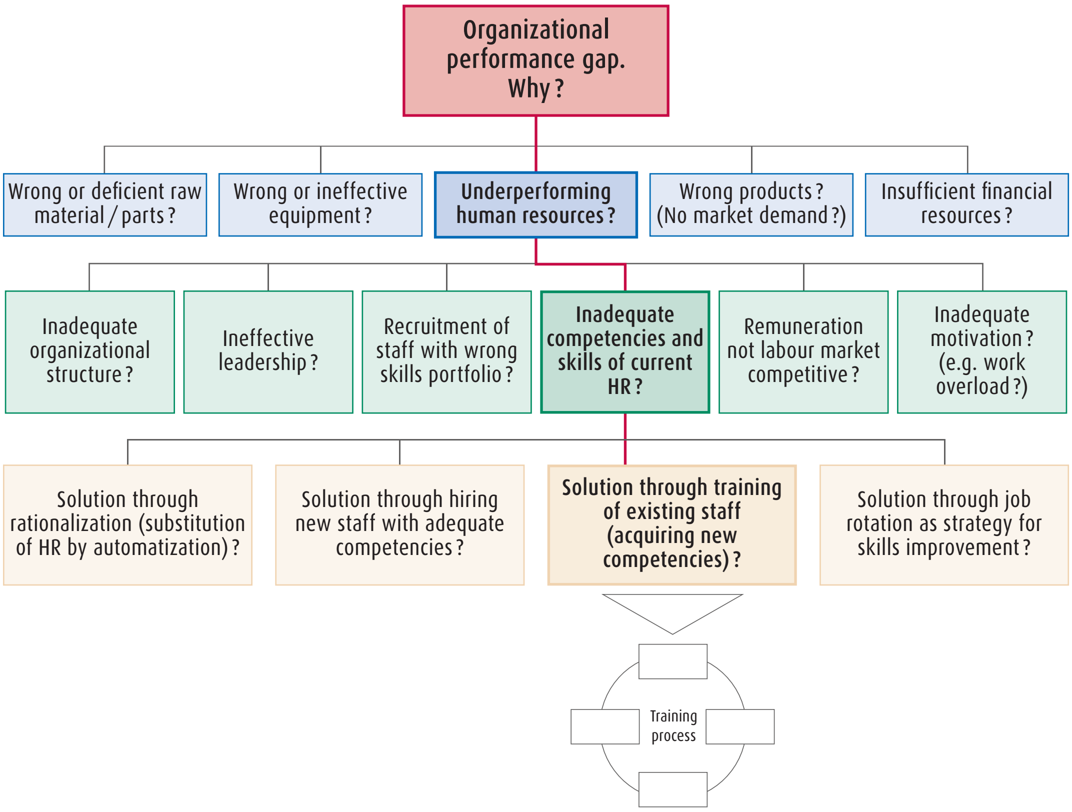


Figure 1 : 'Why training ?' decision tree. *Elucidation of ISO 10015:1999, Figure 1, p.V.*

" customer " is the organization itself, even more than the individuals being trained.

An organization must first recognize the performance challenge it faces and the causes (see the " decision tree " in **Figure 1**). For example, if sales have slumped, the obvious starting point is to find out why. Are the wrong products being produced, or are the right products being targeted at the wrong markets ? Is product quality deficient because of old and unreliable production machinery ? Is service quality poor because employees are not equipped to deal with customer requirements and complaints ?

Following the decision tree exercise, if the performance gap is linked to under-performing human resources, then the organization should again ask itself why. Are employees demotivated by poor pay levels, or by lack of leadership ? Is it because their competencies do not fit the job requirements, or because of a differential between the skill levels of established and new employees ? If either of the last two causes apply, then training could well be the solution.

ISO 10015 helps an organization to link training pedagogy and evaluation to performance objectives

ISO 10015:1999 offers a clear road map towards sound training investment decisions by requiring top management to connect training to performance goals, and use it as a strategic vehicle for individual and collective performance improvement. As a result, training effectiveness is not only measured by improvement in individual professional competence, but also by the extent to which individuals have contributed to the organization's performance.

Feature 2

- **ISO 10015 requires training to be based on pedagogical and organizational learning principles**

Staff training should be implemented as an intervention strategy once an organization has identified it as the optimal approach to closing the performance gap. Consequently, the next critical phase of investing in people is to establish appropriate training design and learning processes. This is where ISO 10015 can be a valuable management tool by helping to ensure that training is organized

– *efficiently* in the use of finances, time and energy, and

– *effectively* in enhancing performance.

ISO 10015 defines training as a four-stage process :

1. defining training needs ;
2. designing and planning training ;
3. providing the training, and
4. evaluating the outcome of training.

Each stage is connected to the next in an input and output relationship (see **Figure 2**). As a quality management tool, ISO 10015 helps to specify the operational requirements for each stage and establishes procedures to monitor the process. Such a transparent approach enables training managers to focus more on the substance of each training investment, rather than merely on controlling expenditure.

Unlike other quality management tools, ISO 10015 helps an organization to link training pedagogy and evaluation to performance objectives. This approach provides an organization with constant feedback regarding its investment in human competencies. The International Standard also encourages companies to examine their training models, and validate their training approaches and premises via comprehensive data.

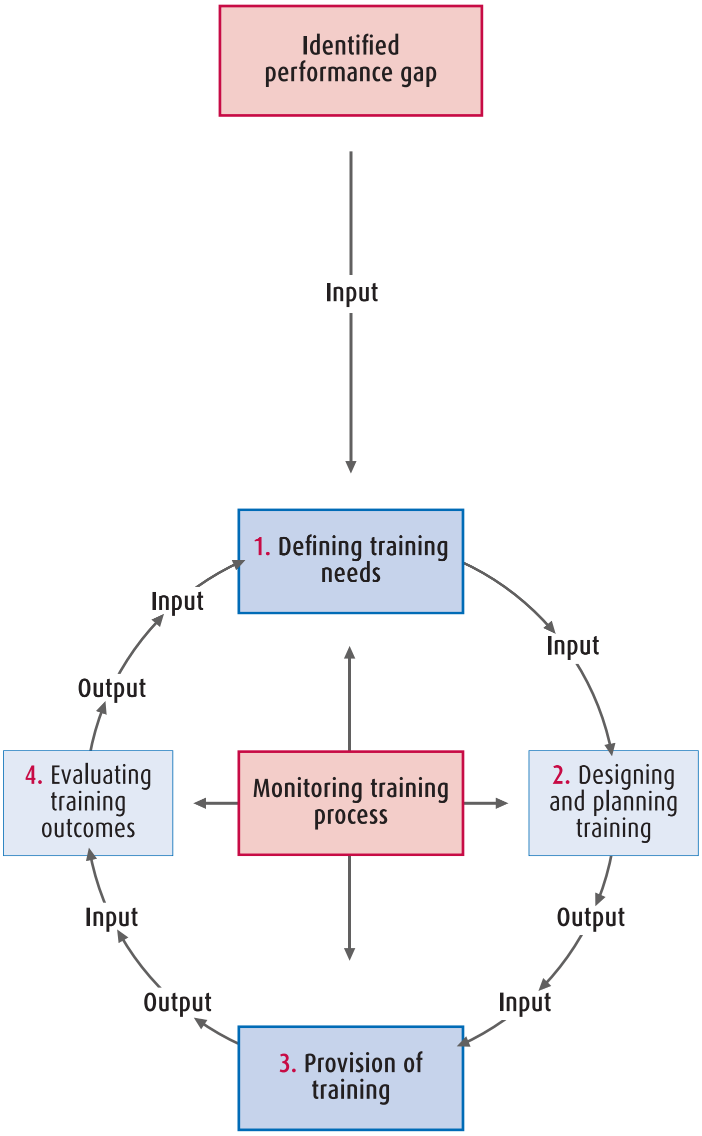


Figure 2: The input-output process of training
Adapted from ISO 10015:1999, Figure 2, p. 2

Training: 'mission critical'

To sustain business development, companies need to invest in people more urgently than ever. Training is "mission critical" in a knowledge-based economy and should not be considered dispensable at times of economic difficulty. Only by raising the quality of its human capital can an organization ensure long-term competitive advantage.

Like any other major investment, training must be managed carefully. ISO 10015 offers a transparent, logical and easy to follow four-stage process to benefit any training programme. Above all, ISO 10015 is a training-specific quality management tool to strengthen the link between training and the organization's performance requirements and its objectives. •

About the authors

Dr. Lichia Yiu and **Dr. Raymond Saner** are joint founders of the Centre for Socio-Eco-Nomic Development (CSEND – **www.csend.org**). This is an independent, project-financed, non-profit Geneva-based foundation that conducts research and development projects and engages in adult education programmes in support of performance improvement in public institutions.

The CSEND division, the Academy for Quality in Training and Education (AdeQuate–**www.adequate.org**), is the first organization accredited by the Swiss Government as a certification body for International Standard ISO 10015:1999 *Quality management – Guidelines for training*.

Dr. Lichia Yiu President of CSEND, has designed and conducted management training projects on cross-cultural leadership, management, localization and international negotiations for multinational companies in North America, Europe and Asia.

She has also designed institutional development platforms to support public sector reforms in China, Slovenia, Vietnam, Russia and English-speaking African countries, for United Nations and bilateral development aid agencies. Dr. Yiu is the author of seven books and more than 40 articles on human resource management and performance improvement.

Dr. Raymond Saner is a director of CSEND and President of Organizational Consultants Ltd., specializing in international management, organization development and business diplomacy.

He has 20 years' experience in training diplomats and managers in international negotiations, globalization and leadership development, and has worked as a consultant to the United Nations, other governmental and non-governmental agencies, and multinational companies.

Dr. Saner also teaches at the Centre for Economics and Business Administration, University of Basle, Switzerland, and was Chairperson of the Advisory Council to the Board, Academy of Management (USA) from 2001-2002.

CSEND
P.O. Box 1498
Mont-Blanc
1211 Geneva 1
Switzerland
Tel. + 41 22 906 1720.
Fax + 41 22 738 1737.
E-mail saneryiu@csend.org
Web www.csend.org and
www.adequate.org